DOCUMENT RESUME

ED 115 146 HE 006 915

AUTHOR Bowen, Howard R.
TITLE The Private Presence in American Higher Education.
PUB DATE 17 Jan 75
NOTE 11p.; Not available in hard copy due to marginal reproducibility of original document

EDRS PRICE MF-$0.76 Plus Postage. HC Not Available from EDRS.
DESCRIPTORS Economic Climate; *Educational Finance; Federal Government; *Higher Education; *Private Colleges; State Action; *State Colleges; *State Universities

ABSTRACT

The importance of private initiative has long been recognized in tax exemption by federal, state, and local governments. One outcome of this history is the dual system of higher education--a system that is partly private and partly public. Despite the important service rendered by the private sector, it is today facing a bleak financial future. Meanwhile dozens of new public institutions and new campuses of old ones have been established , new educational programs have been started in the public sector, and the general quality of public institutions has been raised. These changes have still further weakened the competitive position of the private sector. It is clear that if the present trends continue, many if not most private colleges will be in trouble. The nation clearly faces the decision: Does it wish to maintain the dual system of higher education or not? The point of view that seems to be emerging among educators of both the public and private sectors is the emerging division of labor between the states and the Federal Government. The states will continue to have major responsibility for institutions and some responsibility for student aid. The Federal Government will have a supplementary and supportive role with emphasis on student aid, incentive programs to encourage state action, and categorical grants for research and graduate and professional study. The hope is for a plural or diverse system, including a healthy, private sector, within which there will be competition and also complementarity. (Author/KE)

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Howard R. Bowen
Education Commission of the States
Washington, D. C.
January 17, 1975

THE PRIVATE PRESENCE IN AMERICAN HIGHER EDUCATION

I have been asked to speak to you this morning on the financing of private colleges and universities. In doing so, I shall draw heavily on a report that has just been released by the National Council of Independent Colleges and Universities. I commend the full report to you. Copies can be obtained by writing the Council at the Office of the Association of American Colleges in Washington. My remarks about the private sector are offered in a spirit of respect for and cooperation with public higher education. I personally am deeply committed to both sectors. My own education came primarily from public universities. In my career, I have served three public and three private institutions. I hope to see a continuance of the meaningful dual system in America, not a gain for one at the expense of the other.

One of the characteristic traditions of American society is voluntarism. By that I mean the widespread practice of providing social services of many kinds through private initiative and voluntary contributions. Many of our museums, libraries, symphony orchestras, opera companies, theatres, social welfare agencies, churches, hospitals, schools, and colleges have been organized and financed privately. As a result, a kind of partnership between government and private initiative has grown up. The dual system of cultural and social services developed in part out of our tradition of sharp separation of church and state; partly out of the elitest tendencies of our well-to-do classes who wanted better facilities and services than the state would provide; partly out of a need for diversity, experimentation, and standard-setting in our social services; and partly out of a distrust of government and an unwillingness to commit vital social services to government monopoly. The importance of private initiative has long been recognized in tax exemption by federal, state, and local governments. One outcome of this history is the dual system of higher education -- a system

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that is partly private and partly public.

The differences between private and public colleges and universities can easily be exaggerated. Both are engaged in similar activities -- instruction, research, and community service. Both accept in-state and out-of-state students, though sometimes in different proportions. Both receive funds from the same sources: taxes, private gifts, and student fees -- though usually in different proportions. Both kinds of institutions are public in the sense of meeting public needs and having a sense of responsibility to the public. Both are protected from direct political intervention; the private colleges are protected by their essential independence of the state; the public institutions by non-partisan lay boards, and by traditions of arms-length relationships between government and academia, and in some states by special constitutional status. The basic distinction between the two lies in their sponsorship and in the significant differences in character and program that flow from this differing sponsorship.

The private sector today includes about 1,500 institutions enrolling more than 2,300,000 students. The private enrollment is about 22 percent of all students in higher education but it is 31 percent or nearly a third of all students in four-year institutions. In sheer size the private sector is by no means a negligible part of the higher educational system, though it used to be relatively larger. For many years until about 1950, the total enrollment was divided about evenly between private and public institutions. Since then the private share has been steadily declining.

The differences between the two sectors are subtle differences in emphasis and style. The public institutions are quite diverse ranging from community colleges to great state universities. On the whole they are characterized by openness of admissions (though some are selective), provision for large numbers of students, (though some are small) education oriented to practical interests (though most are to some degree concerned with liberal learning) and responsiveness to political demands (though most have excellent records of academic freedom). The private institutions are also varied. They include small liberal arts colleges, and specialized professional schools, comprehensive universities, great national research universities. They are varied as to size, religious

and ethnic relationships, urban and rural location, admissions requirements, and availability to commuter and residential students. On the whole, they too are distinguished by certain elements of style and emphasis, and their special importance flows from these characteristics.

Some private institutions relate education to religion in ways that are of great value to their constituencies. Most private colleges and universities are small -- less than half the size of public institutions of comparable type. They emphasize human scale, rich community life, and attention to students as individual persons. Most private institutions are committed to liberal learning and humane values and they help keep the liberal tradition alive in an all-too practical society. Private institutions have no monopoly on excellence but some of them are among the world's greatest centers of learning and several hundred -- many of them small -- maintain an exceptional degree of academic excellence. As a result the private sector is a source of educational leadership, standards, and innovation. The private sector provides a counterweight to what would otherwise be a public monopoly of higher education. It provides competition and useful checks and balances. It sets an example of what free institutions are like and thus helps the public institutions to resist unwarranted, but constantly threatened, political control. Academic freedom is not perfect in the private sector and neither is it absent from the public sector. But all of higher education is freer when there is diversified control. The threats to academic freedom come sometimes from big business and wealthy donors, sometimes from the church, sometimes from the state and sometimes from alumni, students, and even faculty. There is safety in diversified control so that no interest in society has a monopoly. Finally, the private sector provides relief to taxpayers of the order of many billions each year.

Sometimes, it is admitted that while some private institutions are valuable and worth preserving, many or even most are obscure and second-rate colleges that do not deserve to survive. My advice to anyone who holds this view is to become acquainted with some of the so-called invisible colleges. He will find that the overwhelming majority are doing a creditable job in serving particular clienteles. Indeed, if the same criteria were applied to public institutions

not all of them would turn out to be so distinguished either, although the great majority are meeting their particular responsibilities adequately. In both sectors, the solution to the problem of weak institutions is to restore them to health by proper support, not to kill them off.

Despite the important service rendered by the private sector, it is today facing a bleak financial future. The early warnings of this were observed several years ago when many private colleges and universities, including some of the most noted ones, were running deficits. On the whole, these deficits were corrected by belt-tightening, more aggressive recruitment of students, and massive increases in tuition. But the underlying problem persists and calls for preventive public action. This is not to say that public institutions do not also have financial problems. They do. But their problems are more manageable because those responsible for the public institutions have access to the funds necessary to keep them afloat.

The distress of the private sector is due to several interrelated factors. First, costs have risen sharply not only because of general inflation but also because of the addition of heavy new expenses to meet the needs of ethnic minorities, and because ever-increasing amounts of general student aid have been necessary to maintain enrollments. Second, endowment income has persistently lagged behind the inflation of costs. Third, income from Federal grants for fellowships, research, and other categorical projects has been cut. The imbalance between income and expenditures, has forced private institutions to devote increasing amounts of gifts to current operations with the result that growth of endowment has been retarded. And, even more important, the private institutions have been forced to raise tuitions year after year. But the rise in tuitions has widened the gap between private and public tuitions and has affected the ability of private institutions to compete for students. Meanwhile, dozens of new public institutions and new campuses of old ones have been established, new educational programs have been started in the public sector, and the general quality of public institutions has been raised. These changes have still further weakened the competitive position of the private sector. This, in turn, has required increasing expenditures for student aid still further putting pressure on the budgets.

All of this is best reflected in the widening gap between private and

public tuitions. Whereas for many years prior to the early 1950s the ratio of private to public tuitions was around 3.5 to 1, today it is about 5 to 1. The ratio is no longer rising because public institutions are also raising tuitions. But the gap in absolute dollars, the critical figure for families, is still rising. In 1956-57 the average dollar gap was $435; by 1966-67 it was $958; in 1974-75 it is around $1,800, and still rising. For example, a recent survey of California colleges indicates that on the average private tuitions will be up about 10 percent next year.

Though the point of no return has not yet been reached, it is clear that if present trends continue, many if not most private colleges will be in trouble, and the private sector will no longer be strong enough to carry out its historic mission. The nation clearly faces a decision: Does it wish to maintain the dual system of higher education or not? If it does, and I think most people on reflection would agree that it should, then some early action by government is needed. The appropriate policies are fairly simple and not terribly costly. Many states are already experimenting with programs of aid to private higher education, though few if any have funded them adequately.

There are those who would solve the problems of higher education, both private and public, by improved operating efficiency of the institutions. No one can oppose better management, the cutting out of frills, etc. However, these are not solutions to the basic problem. Most of the institutions have already been through several years of austere belt-tightening. The economies achieved this way are one-time savings and cannot be repeated. The amounts of such savings that are still possible -- without socially unacceptable cuts in quality -- are miniscule compared with the potential deficits.

There are those also who would solve the private college problem by raising tuitions in the public sector and thus narrowing the tuition gap. This solution is also unacceptable in that access to higher education should be available in at least part of the system without all the apparatus of high fees, large grants based on means tests, and long-term loans to finance students. One system of public welfare ought to be enough without starting another one as an adjunct to higher education. Though some private college presidents and groups have flirted with the advocacy of high tuitions in the public sector, most support a low tuition policy. At least the NCICU report accepts the likelihood of a

continued policy of low public tuitions.

Also there are those who would solve the problem of financing higher education by cutting back on the amount of higher education available in our society. They argue that too many people are going to college. The proposal to cut back is bolstered by the coming decline in numbers of young people of college age and the alleged slackness in the job market for college graduates. I have elsewhere dealt with these matters at length.[1] Suffice it to say that if one accepts as a basic cornerstone of a democratic society that every person

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[1] "American Higher Education: A Growth Industry?", Educational Record, Summer 1974. PP. 147-58.

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should have the opportunity and the encouragement to develop himself to the full extent of his abilities, then clearly we are far from the goal and the amount of educational work to be done is still enormous -- far beyond our present capacity or know-how. Millions of people are not being educated up to their potential as human beings. Our past history has seen a steady expansion of higher education resulting in a widening and deepening of learning for an ever-increasing proportion of our people. First came the church-related colleges which were started by the dozen as the frontier moved westward. Then came the founding of the great state universities; the land-grant movement, the normal schools later to become state colleges and universities, the community colleges, the G. I. Bill, and especially since 1955 the entry of the Federal Government into aid to higher education. But plainly we are only halfway toward the goal. In the next generation or two, the task is to bring women, the poor, the minorities, and adults of all ages into the system. A doubling of enrollment between now and the end of the century is not only possible but likely.

Let me now turn to a brief review of the positive recommendations of the NCICU Report for strengthening private higher education. First and most important, the report recommends state aid to private institutions of a kind that will narrow the tuition gap. The report is not dogmatic on the form of the aid. It recognizes that many states are experimenting with various forms and that local history, tradition, legal considerations, may call for different policies in different settings. In general, the report suggests that aid through grants to students is preferred to aid given directly to institutions because in that

way student choices are widened and direct public control of institutions is avoided. Also the report recommends aid to students without a means test and without an ability test. However, the value of means tests and ability tests in reducing cost to the states is recognized and so these provisions are not categorically opposed.

The report questions the advisability of means tests partly because the program of aid is intended to include people in the middle income brackets and not to be confined to the poor, partly because the means test involves many administrative complications especially since increasing numbers of eighteen-year olds are claiming adult status, and partly to achieve fairness since no means test is required of students of public institutions who receive state subsidies. Also there is precedent for avoidance of the means test. Some states, notably New York and Georgia, have already adopted programs, either of grants to students or grants to institutions which involve no financial tests. Similarly, the report is critical of ability tests of a kind that are common in many state scholarship programs. The reason is simply that these tend to limit the recipients to a small fraction of the population private colleges hope to serve. The hope is that financial plans will be developed which will assist the rank and file of students and not merely the very poor or the very bright.

Similarly, the report suggests restraint in the use of loans to finance students. Loans have an important place in a system of financially higher education, and a coherent national loan system should be created. But loans should serve as a supplemental form of aid giving flexibility to the system, not as the basic form of aid.

The report offers as one desirable plan a program of state tuition grants to students of private colleges, the amount of these grants approximating half the average subsidy to students in state institutions. The subsidy in state institutions now averages about $1,400 a year; thus, the tuition grants would average about $700 a student. The net cost for such a program if adopted by all states would be less than $1 billions.

A federal role in connection with these grants was also recommended. One difficulty with state programs of aid to students of private colleges is that they cover only in-state residents who attend in-state private institutions. The result is that the aid is available quite unevenly. Many private colleges with local clienteles are situated near state boundaries and draw students from two or more states. Many other private institutions are national in scope and draw students from many states. Some institutions have as few as ten percent of their students from the home state of the institution. Clearly, a solution to the problem of keeping open the interstate mobility of students calls for federal intervention. The proposal is that the Federal Government offer incentive grants to the states to encourage state aid to private institutions and that these grants be arranged so that they encourage the states to make grants to students of private institutions regardless of residence of these students.

I shall mention briefly other recommendations of the report:

1. Present federal student aid programs should be modified to provide greater assistance to students of private colleges. One possibility would be to provide higher ceilings in the amount of grants and in allowable family income in determining the allowances for students of private institutions. Another would be special cost of education supplements for aid recipients attending private institutions.

2. Statewide planning for higher education should give greater attention to the interests of private institutions and to their potential contributions. Special efforts should be made to avoid wasteful duplication of services through unneeded new public programs.

3. Tax exemptions and deductions should be maintained and extended. Private colleges and universities should be exempt from local and state property, sales, and other taxes on the same basis as public institutions and should be freed from pressure of local authorities to make contributions in lieu of taxes. Federal and state income, inheritance, and estate taxes should continue to provide strong incentives for philanthropic giving, and these incentives should be strengthened and the system made more equitable by adoption of the

Pifer plan which would extend to low-income people the same benefits received by the wealthy from voluntary giving.

4. The federal program for developing institutions (under the Higher Education Amendments of 1972) should be continued.

5. Federal funding for research and graduate and professional education should be increased and given more stability.

6. Capital funds should be made available to private institutions through federal and state matching grants for replacement, remodeling, and reconstruction of building and through tax-exempt bonding authority.

In conclusion, I would like to summarize what I regard as a common point of view that seems to be emerging among educators of both the public and private sectors. My sense of this coming together derives in part from the experience of working on the NCICU report, in part from an informal survey of leading educators in the private sector, and partly from discussions with educators in several states.

There is apparent agreement and acceptance of the emerging division of labor between the states and the Federal Government. The states will continue to have major responsibility for institutions and some responsibility for student aid. The Federal Government will have a supplemental and supportive role with emphasis on student aid, incentive programs to encourage state action, and categorical grants for research and graduate and professional study. The question of federal institutional aid is still live but highly controversial.

Both public and private tuitions should be moderate. Private educators recognize that higher tuitions in the public sector would be helpful to them but few advocate such a policy.

Few educators have faith in means tests when applied to millions of people in the disbursement of vast sums of money, and few look with enthusiasm on proposals to load students with heavy loans, though most recognize that loans have a place as a supplemental form of student aid. These attitudes toward means tests and loans reinforce the views favoring low tuitions.

The hope is for a plural or diverse system, including a healthy private sector, within which there will be competition and also true complementarity. The private sector is valuable and should be preserved and strengthened. It needs public aid to narrow the tuition gap and this public aid should be delivered via students.

Statewide planning should seek to avoid unnecessary duplication of institutions and programs. But such planning should not be heavy-handed control of private institutions nor should it destroy initiative within public institutions.

Private institutions should enjoy the same tax exemption as public institutions, and tax incentives encouraging charitable giving to higher education should be strengthened on behalf of both the public and private sectors.

Federal support of graduate and professional study and research should be strengthened and stabilized.

Students should have choice among various types of institutions and programs. This choice should include various types of both public and private institutions and both in-state and out-of-state institutions.

Adequate programs and financing should be available for non-traditional students in both the public and private sectors.

Obviously not everyone agrees on each of these propositions -- not everyone in this room. Nevertheless, I feel quite strongly that the basic features of a system of finance that can accommodate both the public and private sectors is emerging. This is so basically because the various branches of higher education have interests that are more in common than in conflict.